



0000039171

RECEIVED

NEW APPLICATION

2001 SEP -4 P 4:10

## BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION  
DOCUMENT CONTROL

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

E-01773A-01-0701

IN THE MATTER OF THE APPLICATION OF  
ARIZONA ELECTRIC POWER  
COOPERATIVE, INC. FOR  
AUTHORIZATION TO INCUR DEBT AND  
SECURE LIENS IN ITS PROPERTY TO  
FINANCE THE GAS TURBINE NO. 4  
PROJECT

No.: E-01773A- -

## APPLICATION

GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000

Pursuant to A.R.S. § 40-301 et. seq., the Arizona Electric Power  
Cooperative, Inc. ("AEPCO"), by and through its attorneys undersigned, in support of its  
Application states as follows:

1. AEPCO is an Arizona non-profit electric generation cooperative  
which supplies the power needs of its Class A, Class B and Class C members. AEPCO's  
address is Post Office Box 670, Benson, Arizona 85602.

2. AEPCO's Board of Directors is comprised of representatives of its  
members. Attached hereto and incorporated herein by this reference as Exhibit A are  
three resolutions of AEPCO's Board dated May 9, June 13 and July 11, 2001 approving  
the use of general funds and financing for the Gas Turbine No. 4 Project (the "Project")  
which is the subject of this Application.

3. Currently, AEPCO meets the power requirements of its members  
with a combination of power and energy (a) produced by its units at the Apache

1 Generation Station near Wilcox, Arizona and (b) purchased power arrangements with  
2 other utilities. The Apache Station consists of several units totaling 520 MWs--some of  
3 which are capable of burning both coal and natural gas.

4 4. In 1999, AEPCO formed a Power Supply Task Force (the "Task  
5 Force") primarily to plan for the orderly acquisition of additional resources--owned  
6 generation, outside purchases or both--to meet projected load growth. At the time the  
7 Task Force was formed, AEPCO was projected to have adequate resources to meet  
8 member energy needs until the summer of 2004.

9 5. Since the formation of the Task Force, several of AEPCO's Class A  
10 member distribution cooperatives have experienced much higher than anticipated load  
11 growth. As a result, AEPCO's actual Class A member peak loads this summer exceeded  
12 the projections of the power requirements study prepared in 2000. At the same time, as  
13 the Commission is aware, developments in California and throughout the west have  
14 dramatically changed both the availability and the price of power from outside sources.

15 6. To date, AEPCO has been able satisfactorily to accommodate the  
16 unanticipated growth in demand through a variety of means including the repositioning of  
17 existing purchased power arrangements and a reserve sharing arrangement with Class B  
18 member Morenci Water & Electric. The more immediate needs of its Class A members  
19 have also led AEPCO to terminate its 17.5 MW power sale to the City of Mesa.  
20 Nonetheless, AEPCO now anticipates it will need up to 40 MW of additional resources to  
21 meet demands until 2004. A resource shortfall of 26 MWs is forecast for next summer  
22 followed by shortfalls of 30 MWs and 39 MWs for 2003 and 2004, respectively.

1           7.     The Task Force examined a variety of different options to meet the  
2 immediate resource shortfall ranging from outside purchases to jointly owned generation  
3 projects to the addition of new capacity at Apache Station. The Board has approved the  
4 Project which consists of the purchase from General Electric and the installation at  
5 Apache Station of a new 38 MW natural gas aeroderivative turbine.

6           8.     The Project offers several advantages to AEPCO, its member  
7 distribution cooperatives and their rural Arizona customer/owners:

- 8           •     It will meet AEPCO's immediate projected resource shortfalls until  
9                 2004 allowing time to plan for longer term requirements.
- 10          •     It reduces future reliance on unpredictable purchased power  
11                 supplies. Recent experience has indicated that at certain times  
12                 purchased power is not available at any price.
- 13          •     The Project will back up AEPCO's existing generation--all of which  
14                 is more than 20 years old--and allow more flexibility in planning  
15                 maintenance outages for existing generation.
- 16          •     The new, more efficient aeroderivative turbine will provide some  
17                 relief in running older, less efficient units during peak periods;  
18                 therefore reducing operating and maintenance costs.
- 19          •     The Project's stepped addition also represents one of several steps  
20                 designed to address the orderly replacement of Apache's aging  
21                 combined cycle and gas turbine units over the next several years.
- 22          •     Any excess generation capacity created during the next few years  
                can be sold into the market at prices exceeding production costs,  
                thereby reducing the revenue requirements of the Class A members.

20          9.     The Project's estimated cost is \$30 million including the purchase of  
21 the turbine itself and related construction and installation costs at Apache Station.

22     Attached as Exhibit B is a summary estimate of Project costs. This summer, AEPCO has

1 met with representatives of the Rural Utilities Service ("RUS") and the National Rural  
2 Utilities Cooperative Finance Corporation ("CFC") to discuss lending arrangements for  
3 the Project. Because of the pressing need for the Project, RUS and CFC have  
4 recommended that AEPCO seek simultaneously two alternate short term solutions: (1)  
5 CFC interim financing with an RUS lien accommodation and (2) CFC/RUS so-called  
6 Fast Track A financing. Regardless of which short term option is ultimately selected,  
7 permanent financing for the Project will be secured from the Federal Financing Bank.

8           10. AEPCO requests Commission approval of this Application by no  
9 later than its Open Meeting on November 6, 2001. In order to assure delivery of the  
10 turbine by May 15, 2002, AEPCO is funding required progress payments from internally  
11 generated funds which is placing a severe strain on its cash resources. Interim financing  
12 is needed as soon as possible to reduce this drain, assure a more stable finance source for  
13 the Project and ensure the Project is completed in time to meet the summer 2002  
14 demands.

15           WHEREFORE, having fully stated its Application, AEPCO requests that  
16 the Commission enter its Order:

17           A. Authorizing AEPCO to secure interim financing for the Project in an  
18 amount not to exceed \$30 million from either the National Rural Utilities Cooperative  
19 Finance Cooperation and/or the Rural Utilities Service;

20           B. Authorizing AEPCO to secure permanent financing for the Project in  
21 an amount not to exceed \$30 million through the Rural Utilities Service and the Federal  
22 Financing Bank;

GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000

1 C. Authorizing AEPCO to grant liens in its property as required in  
2 order to secure the borrowings authorized herein; and

3 D. Authorizing AEPCO to engage in any transactions and to execute  
4 any documents necessary to effectuate the authorizations granted.

5 RESPECTFULLY submitted this 30<sup>th</sup> day of August, 2001

6 GALLAGHER & KENNEDY, P.A.

7  
8 BY: Michael M. Grant  
9 Michael M. Grant  
10 Todd C. Wiley  
11 Gallagher & Kennedy, P.A.  
12 2575 East Camelback Road  
13 Phoenix, Arizona 85016-9225  
14 Attorneys for AEPCO

15  
16 ORIGINAL and ten copies filed this  
17 30<sup>th</sup> day of August, 2001  
18 with Docket Control.

19  
20 COPY delivered this 30<sup>th</sup> day of  
21 August, 2001 to:

22  
Chairman William A. Mundell  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Commissioner Jim Irvin  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000

1 Commissioner Marc Spitzer  
Arizona Corporation Commission  
2 1200 West Washington  
Phoenix, Arizona 85007

3  
4 Barbara Wytaske  
Utilities Division  
Arizona Corporation Commission  
5 1200 West Washington  
Phoenix, Arizona 85007

6  
7 Linda Jaress  
Utilities Division  
Arizona Corporation Commission  
8 1200 West Washington  
Phoenix, Arizona 85007

9  
10 Jerry Smith  
Utilities Division  
Arizona Corporation Commission  
11 1200 West Washington  
Phoenix, Arizona 85007

12  
13 Linda Magiera  
10421-0028/951280

14

15

16

17

18

19

20

21

22

A

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**  
Benson, Arizona

The following resolution was adopted at an Executive Session of the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO), held in Benson, Arizona on May 9, 2001.

**RESOLUTION**

***WHEREAS***, Project No. 5000444000, Apache Station Gas Turbine No. 4, will meet the immediate generation needs of Arizona Electric Power Cooperative, Inc. (AEPCO), reduce market risk and improve the reliability of Apache Station; and

***WHEREAS***, it is the recommendation of management that Project 5000444000, Apache Station Gas Turbine No. 4, be approved in the estimated amount of \$30,000,000.00; and

***WHEREAS***, management also recommends the award of a contract to GE Packaged Power, Inc. in the amount of \$17,265,309.00 for the supply of the gas turbine equipment (Specification 5000444.SP-2); and

***WHEREAS***, the Utility Operations and Construction Committee has reviewed the recommendations of management and deems it to be in the best interest of AEPCO and its member-consumers to approve the Apache Station Gas Turbine No. 4 Project and to award a contract to GE Packaged Power, Inc.; and

***WHEREAS***, the Rural Utilities Service (RUS) must approve the contract and the RUS's Bulletin 103-2 states the requirements for the "Use and Approval of General Funds for Addition to Plant."

***NOW, THEREFORE BE IT RESOLVED***, that the Board of Directors of AEPCO approves Project No. 5000444000, Apache Station Gas Turbine No. 4, in the estimated amount of \$30,000,000.00; and

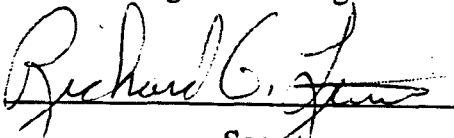
***BE IT FURTHER RESOLVED***, that the Board of Directors of AEPCO approves the award of a contract to GE Packaged Power, Inc. in the amount of \$17,265,309.00 for the supply of the gas turbine equipment (Specification 5000444.SP-2); and

***BE IT FURTHER RESOLVED***, that the officers of AEPCO are hereby authorized to execute any necessary documents pertaining to such contract to supply the gas turbine equipment (Specification 5000444.SP-2); and



**BE IT FURTHER RESOLVED**, that the Board of Directors of Arizona Electric Power Cooperative, Inc. hereby requests from the Rural Utilities Service approval of the contract for supply of the gas turbine equipment (Specification 5000444.SP-2) and permission to use AEPCO's general funds for the Apache Station Gas Turbine No. 4 Project until such time as RUS loan funds are approved and made available for the project.

I, Richard G. Lunt, do hereby certify that I am Secretary of AEPCO, and that the foregoing is a true and correct copy of the Resolution adopted by the Board of Directors at a regular meeting held on May 9, 2001.

  
Secretary

(seal)

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**  
Benson, Arizona

The following resolution was adopted at a regular meeting of the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO), held in Benson, Arizona on June 13, 2001.

**RESOLUTION**

***WHEREAS**, the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO) has been made aware of the need for financing for the Gas Turbine #4 project; and*

***WHEREAS**, staff has provided the background as to the various options available to AEPCO; and*

***WHEREAS**, Project No. 5000444000, will meet the immediate generation needs of AEPCO, reduce market risk and improve the reliability of Apache Station; and*

***WHEREAS**, Gas Turbine #4 has been previously approved on May 9, 2001 in the estimated amount of \$30,000,000.00; and*

***WHEREAS**, a contract has been awarded to GE Packaged Power, Inc.*

***NOW, THEREFORE BE IT RESOLVED**, that the Board of Directors hereby authorizes the Rural Utilities Service(RUS) / the Federal Financing Bank (FFB) be requested to provide financing for long-term funding for the project, that a Fast Track review by the Rural Utilities Service/National Rural Utilities Cooperative Finance Corporation (RUS/CFC) be requested and that front-end funding be requested from CFC; and*

***BE IT FURTHER RESOLVED**, that the Executive Vice President and Chief Executive Officer, the Chief Operating Officer, and the Chief Financial Officer be authorized either individually or collectively, to sign all necessary documents, applications, submittals, agreements, etc., as may be necessary to secure interim and/or long term funding for Gas Turbine #4; and*

***BE IT FURTHER RESOLVED**, that Management is hereby authorized to request finance and regulatory approval from the Arizona Corporation Commission, the RUS, and finance approval from the CFC for the interim and/or permanent financing of this project up to the maximum period of time permitted.*

I, Richard G. Lunt, do hereby certify that I am Secretary of AEPCO, and that the foregoing is a true and correct copy of the Resolution adopted by the Board of Directors at a regular meeting held on June 13, 2001.

(seal)

---

Secretary

**ARIZONA ELECTRIC POWER COOPERATIVE, INC.**  
Benson, Arizona

The following resolution was adopted at a regular meeting of the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO), held in Benson, Arizona on July 11, 2001.

**RESOLUTION**

***WHEREAS**, the Board of Directors of Arizona Electric Power Cooperative, Inc. (AEPCO) has previously approved the Gas Turbine No. 4 Project (W.O. 5000444000); and*

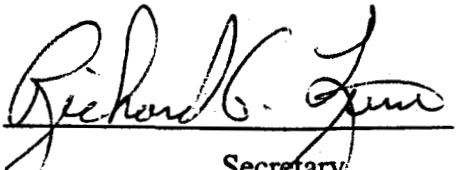
***WHEREAS**, the Rural Utilities Service (RUS) Bulletin 103-2 states requirements for the "Use and Approval of General Funds for Addition to Plant"; and*

***WHEREAS**, it is the recommendation of management that approval be requested from the RUS to use AEPCO's general funds for gas turbine progress payments (GE Packaged Power, Inc. contract in the amount of \$17,265,309.00) and related studies; and*

***WHEREAS**, the Utility Operations and Construction Committee has reviewed the recommendation of management and deems it to be in the best interest of AEPCO and its member-consumers to request RUS approval to use AEPCO's general funds for gas turbine progress payments and related studies.*

***NOW, THEREFORE, BE IT RESOLVED**, that the Board of Directors of Arizona Electric Power Cooperative, Inc. hereby requests permission from the Rural Utilities Service to use general funds for gas turbine progress payments (GE Packaged Power, Inc. contract in the amount of \$17,265,309.00) and studies related to the Gas Turbine No. 4 Project (W.O. 5000444000).*

I, Richard G. Lunt, do hereby certify that I am Secretary of AEPCO, and that the foregoing is a true and correct copy of the Resolution adopted by the Board of Directors at a regular meeting held on July 11, 2001.

  
Secretary

(szal)

B

AEP CO GAS TURBINE NO. 4  
SUMMARY COST ESTIMATE/COST PER KW  
(Based on Washington Group 8/21/01 Estimate)

I.	Major Equipment	
a.	Gas Turbine (GE LM6000PC Sprint w/Evap. Cooling) including installation & start-up supervision, fuel gas conditioning equipment, dual fuel, water injection, etc.	\$17,265,309
b.	Step-up Transformer - 13.8/241.5kV, 37.5/50/62.5 MVA	\$625,287
c.	Selective Catalytic Reduction/CO Catalyst including stack	\$2,500,000
II.	Construction	
a.	Site Work, Foundations, etc.	\$1,499,348
b.	Mechanical & Controls including equipment erection, piping, I&C, insulation, etc.	\$2,825,079
c.	Electrical	\$2,279,438
d.	Buildings, Painting & Misc.	\$163,498
III.	Engineering Services	\$1,382,000
IV.	Owner In-house Costs	\$300,000
V.	Interest During Construction	\$1,160,041
	<b>Total Estimate</b>	<b>\$30,000,000</b>
VI.	Installed Cost per kW (net) with SCR/CO Catalyst	
	Net Unit Rating at site conditions of 4200' and 95 degrees F	38,000kW
	<b>\$30,000,000 Total Cost Estimate/38,000kW Unit Rating =</b>	<b>\$789/kW</b>